

TEESSIDE PENSION BOARD

A meeting of the Teesside Pension Board was held on 19 September 2016.

PRESENT: Mr C Monson, (Chair), Mr G Whitehouse, (Deputy Chair), Mr G Clyburn, Mrs J Cook, Councillor N J Walker and B Woodhouse

OFFICERS: J Bromiley, Strategic Director Finance, Governance and Support, P Campbell - Head of Investments and Treasury Management, G Hall - Scheme Co-ordinator, S Lightwing - Democratic Services Officer, M Taylor - Interim Chief Finance Officer

APOLOGIES FOR ABSENCE: None.

DECLARATIONS OF INTERESTS

Name of Member	Type of Interest	Item/Nature of Interest
Mr G Clyburn	Non-pecuniary	Member of Teesside Pension Fund
Mrs J Cook	Non-pecuniary	Member of Teesside Pension Fund
Mr C Monson	Non-pecuniary	Member of Teesside Pension Fund
Mr G Whitehouse	Non-pecuniary	Member of Teesside Pension Fund
Councillor B Woodhouse	Non-pecuniary	Member of Teesside Pension Fund

1 TEESSIDE PENSION FUND DRAFT STATEMENTS OF ACCOUNT 2015/2016

The Assistant Director Interim, Finance and Governance, gave a detailed presentation in relation to the Teesside Pension Fund Statement of Accounts for the year ended 31 March 2016. The aim of the presentation was to provide an overview of the Accounts including the key statements, notes and other items.

Ernst and Young LLP, (EY), the Council's External Auditors, had recommended, amongst a number of other issues, that the Teesside Pension Board should approve the Fund's Statement of Accounts. An Auditor from EY was present at the meeting.

The Financial Statements comprised five elements including: the Introduction, Statement of Responsibilities, Audit Opinion, Main Statement summarising Fund performance and the Notes to the Accounts. Ultimately the Fund Accounts would be combined with Middlesbrough Council's Statement of Accounts and signed off by the Corporate Affairs and Audit Committee.

A detailed explanation of the Main Statement was provided and the net assets of the scheme at 31 March 2016 were noted. Notes 6, 7 and 8 showed the pension contributions paid by employers and employees and note 9 showed the benefits paid to employees including pensions, death grants and leavers. Attention was drawn to the figure for Leavers which was in part due to the benefits transferred out at the end of 2014/2015 when the Probation Service left the Fund.

Total contributions to the Fund were less than the total benefits paid and Members were advised that investments needed to be developed to meet day-to-day needs as well as the future growth of the Fund. Membership of the Fund had likely peaked and since all Local Authorities had undergone major rationalisation and restructuring over the last few years, fewer people were making contributions and this trend was unlikely to change for at least the next five years.

Returns on investments from dividends and interest receipts had increased from the previous year. However, since the Fund was heavily invested in equities it was important to note that it was subject to market fluctuations to a greater extent than other Funds with more conservative portfolios. The Net Assets Statement showed the make-up of the investments

and liabilities. The Fund had fallen in value by £111 million; however the net assets of the Fund still had a value which was more than enough to meet its liabilities in the long term. At 31 March 2016 the assets were 101.3% of the liabilities.

Note 5 to the Accounts highlighted some of the uncertainties on the valuation and the key issues. Notes 6 to 11 provided further information on expenditure and income and notes 12 to 13 gave more background to the portfolio of the Fund.

In order to check that funding objectives were being met the Fund was required to carry out an Actuarial Valuation, known as the Triennial Valuation, every three years. It was highlighted that 2016 was a triennial year and the Fund would be reviewed by the Actuary in mid-October. In addition, the Government Actuary would be carrying out a benchmarking exercise over the next two years which would highlight any Funds that did not fit certain parameters. The Actuary's Statement contained more information about how the calculations were made and would form part of the Triennial Valuation.

The External Auditor informed the Board that the Audit was still ongoing but it was likely that the Auditor would issue an unqualified opinion on the Accounts. No material mis-statements had been identified and the level of materiality was £16 million.

In relation to the increase in management expenses, it was clarified that there were a number of contributing elements. The Pension Administration Service was administered by the Kier Group and was responsible for collecting pension contributions, making payments, running the accounts and organising events. Transaction costs were also included in the management expenses. More trading had taken place in 2015/2016 than in the previous years, equating to around £4,000 in additional transaction costs.

In response to queries from Board Members, further explanation was provided in relation to Outstanding Commitments, Scheduled Bodies and the ISA260 disclosure.

The Assistant Director Interim went on to provide an update on a recent review undertaken by EY and some of the possible implications for the Teesside Pension Board and Fund and Investment Panel. The following points had been noted:

- Most Local Government Pension Schemes had a Fund Manager to manage investments, whereas the Teesside Pension Fund and Investment Panel managed its own.
- The Trustees managed strategy as well as operations.
- There was no documented evidence for supporting decisions; although this had now been rectified with Fund Advisors required to produce written reports.
- Risk management needed clarification.
- The roles and responsibilities of the Board and the Investment Panel were not clearly identified.
- No Member of the Board had a specific pension background or was a professional pensions officer and there was no written evidence of effective investment advice or expertise to either the Panel or the Board.
- Evidence of overview, review or scrutiny of the Investment Panel by the Board was not documented.
- The Teesside Pension Fund was an outlier in pension funds specifically in terms of its investment portfolio and could be subject to Government challenge in the future.

The Assistant Director Interim commented that whilst there was nothing fundamentally wrong with the current practices of the Teesside Pension Board or the Investment Panel; improvements could be made. It was suggested that it would be useful for the Board to receive expert advice from an independent adviser.

The Head of Loans and Investments updated the Board in relation to pooling. A response was awaited from the Department for Communities and Local Government (DCLG) in relation to the Panel's final submission on the proposed regulations for the management of Local Government Pension Schemes.

AGREED as follows:

1. The Teesside Pension Fund Statement of Accounts for the year ended 31 March 2016 was adopted.
2. Arrangements would be made for expert advice to be provided to the Board.
3. Teesside Pension Board Members would receive an electronic link to Teesside Pension and Investment Panel Agendas when issued.